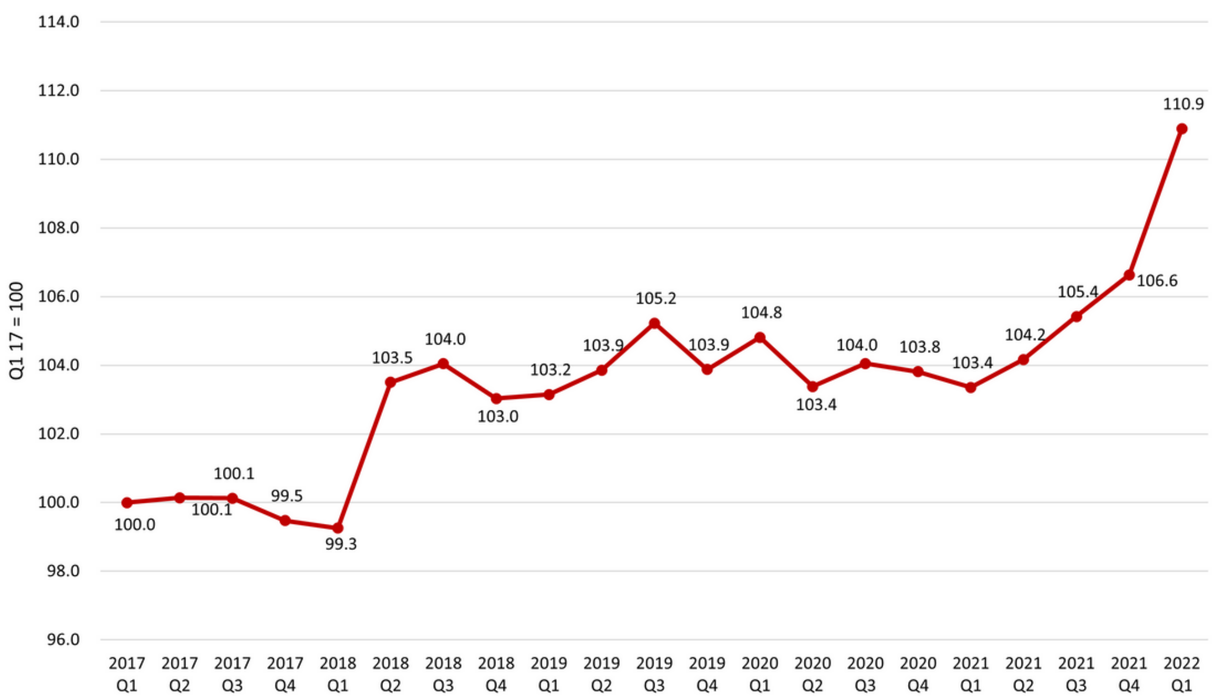
THE EUROPEAN **ROAD FREIGHT RATE** DEVELOPMENT **BENCHMARK**

Q1 2022

Contents

The Upply x Ti x IRU European road freight rates index for Europe hit an all-time high in Q1 2022 as rising cost pressures, supply and capacity disruptions, regulatory change and war in Ukraine created a potent mix of rate drivers. The Benchmark index rate rose by 4.3 points over the previous quarter, while it increased 7.5 points over the first quarter of 2021.

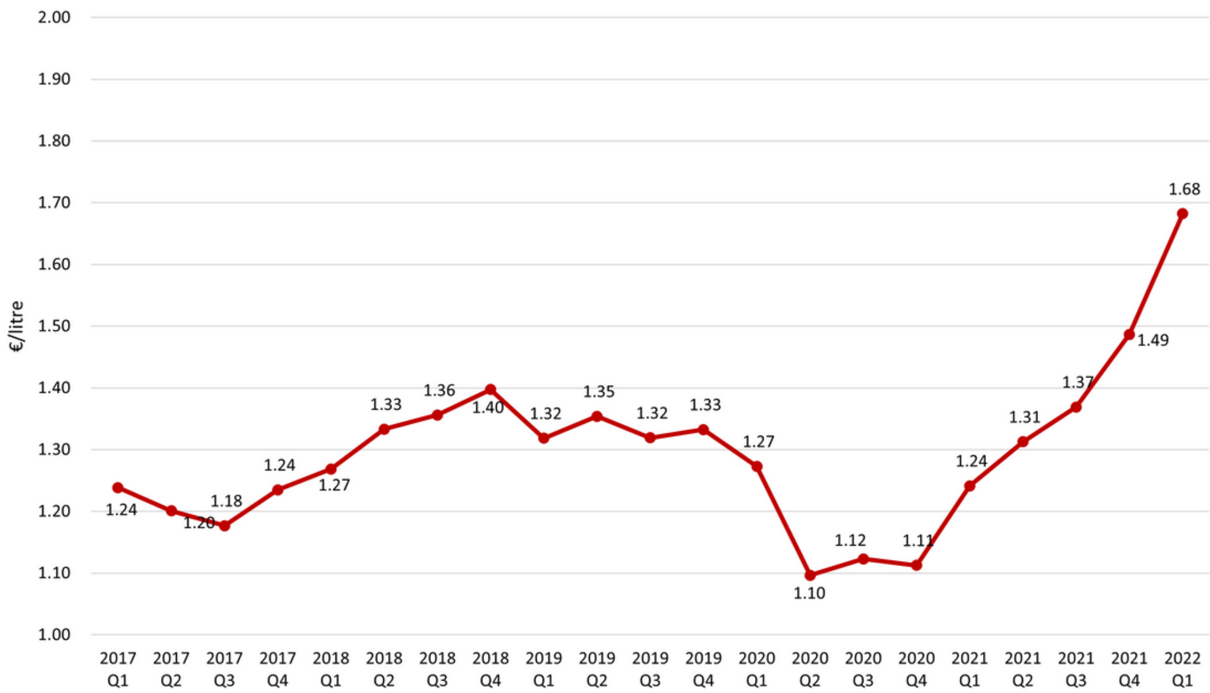
Ti x Upply x IRU European road freight benchmark
European road freight rates index, Q1-2022



The result of the forces currently exerting themselves on the European road freight market is an uncertain, challenging and complex market environment. After buoyant consumer spending in 2021, rising inflation in the first three months of 2022 and the expectation of higher interest rates to come have seen confidence amongst consumers erode in much of Europe, including in Germany, the UK, Spain, Italy and even in the more dynamic French economy.

The effects of inflation on the supply side of the European road freight market, especially on diesel prices, have led to substantial increases in rates in Q1 2022. The Russian invasion of Ukraine and the subsequent restriction of oil supplies from Russia into Europe has led to further upward pressure on prices. As shown in the chart below, the EU-wide weighted average of a litre of diesel has risen sharply since Q3 2021. Compared with the pandemic-induced low of €1.10 during Q2 2020, the weighted average cost of diesel was 52.7% higher in the first quarter of 2022. Indeed, even compared to a pre-pandemic high of €1.40 per litre Q4 2018, diesel prices across Europe are up 20%.

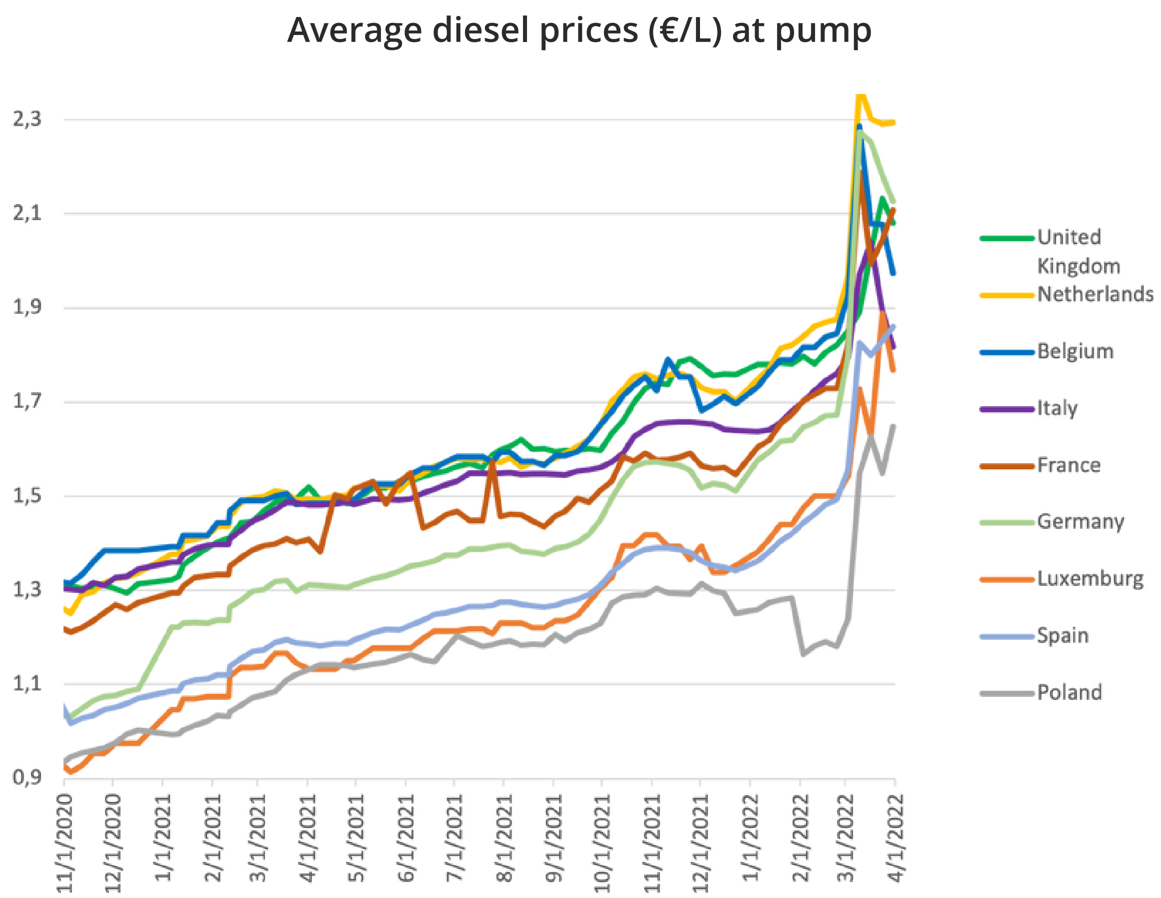
Average European diesel prices – EU weighted average



Source: Transport Intelligence (TI)

The pressure this rise in diesel costs has placed on carriers is extreme, not least due to the rapidity of its onset with per litre prices rising 12.8% in Q1 2022 alone. Data from CNR indicates that the cost of diesel made up more than 25% of the total running costs of an international HGV based in France in 2019. Taking an average of €1.33 per litre for 2019, as indicated above, the increase in early 2022 to €1.68 per litre suggests fuel is likely to now account for significantly more of the total running costs.

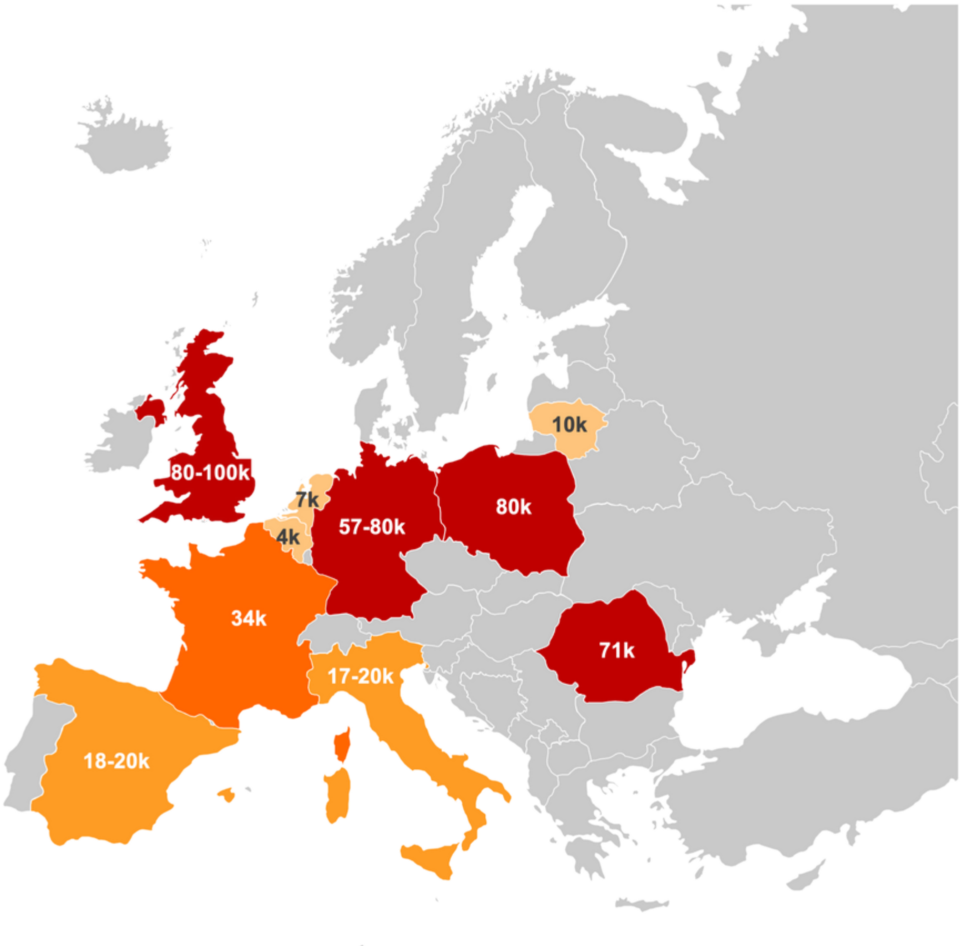
There appears to be no short-term alleviation in diesel costs, indeed the problem may worsen as carriers previously insulated by bulk purchasing agreements, find such mechanisms for buying fuel for use in the future no longer provide protection. Fuel costs, though, are only one of the challenges currently shaping the road freight market in Europe, and only one factor pushing rates higher.



Source: IRU

The availability of labour, most notably HGV drivers, has long been an issue in the European road freight market. At the end of 2021, before the Russia-Ukraine conflict, over 380,000-425,000 truck driver positions were unfilled in Europe according to IRU estimates [1] (see map below), from which 80,000 are in Poland and 10,000 in Lithuania.

Truck driver shortage 2021 (thousands of drivers missing)



Source: *national road freight transport associations, IRU analysis*

Amongst many impacts that have and will be felt following Russia's invasion of Ukraine is an additional loss of labour from Europe's logistics sector.

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[1] In the scope of countries studied (see map below): Spain, France, Italy, UK, Belgium, Netherlands, Germany, Poland, Lithuania, Romania.

Poland and Lithuania are the countries in the EU employing the highest number of non-EU drivers: from the total of 228,000 driver attestations in road freight transport in circulation at the end of 2020, 103,000 (45%) had been issued in Poland, with 67,000 (29%) in Lithuania [1].

- In Poland, nearly 30% of drivers working in international transport are foreign and mainly from non-EU countries [2]. The majority of those drivers are Ukrainian (around 75%) and Byelorussian (around 20% [3]). Such a high level of employment of citizens mainly from non-EU countries is caused by the natural neighbourhood of these countries for Poland and the lack of significant cultural differences. Due to the shortages in the national staff, the Polish government facilitated the employment of citizens from Ukraine, Belarus, Russia, Georgia, Armenia and Moldova. In addition, facilitation to obtain working permits for foreigners was introduced for several shortage occupations in the country, including drivers in road and passenger transport [4].

- In Lithuania, the majority of those third-country drivers are also Byelorussians, Russians and Ukrainians.

As of 24 February 2022, Ukraine announced a state of military emergency, which automatically imposed a ban on males aged 18-60 leaving the country. Ukrainian males, including those working as truck drivers that were in the country at that moment, were unable to leave, while many Ukrainian males living and working outside Ukraine (including truck drivers) returned to the country.

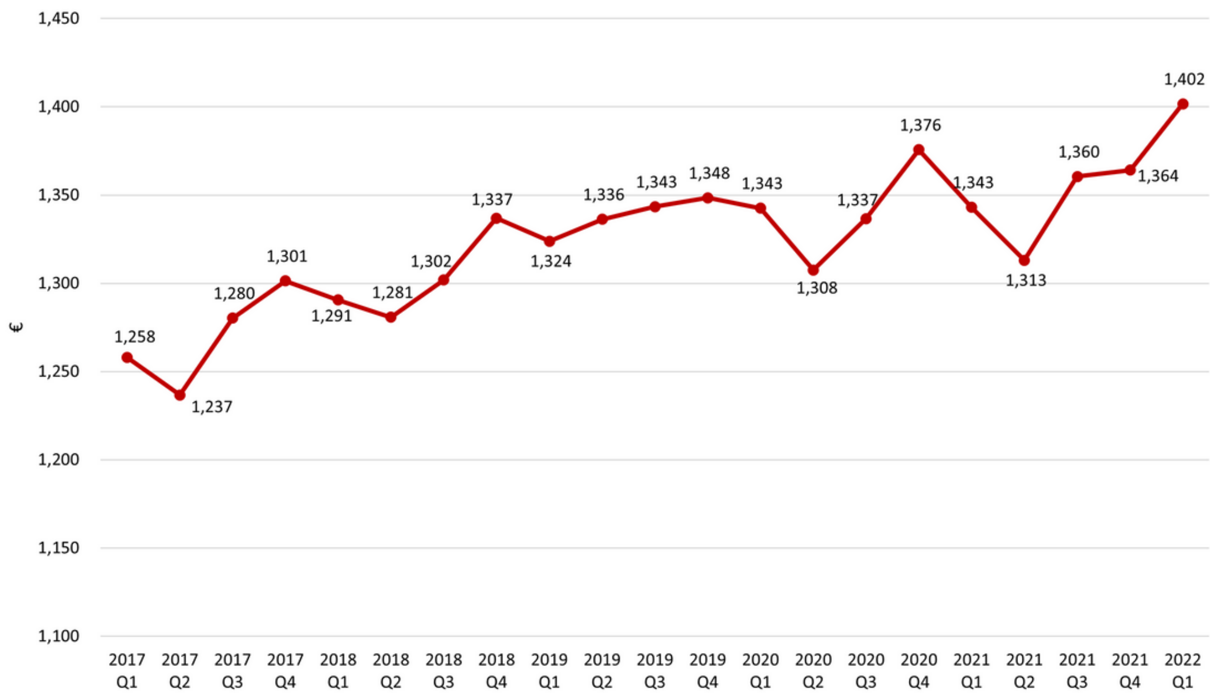
[1] Driver attestations issued for 3rd country (non EU) drivers working for an EU company in accordance with article 17(2) of Regulation (EC) No 1072/2009
[2] ZMPD
[3] Looking at driver attestations issued in 2019 in Poland (73.7 thousand) by country (information from ZMPD), and taking it as a good indicator of the share by country of attestations in circulation 2020 issued in Poland (103 thousand)
[4] ZMPD

There were also cases in which, given the situation, the resident cards or working visas of Russian and Belarusian drivers were not extended, while some employers in Europe have terminated labour contracts with Russian and Belarusian drivers. Additionally, Russian and Byelorussian drivers are also reluctant to drive in/to Europe and are returning to their home countries (thus reducing the driver shortage in their home countries).

This means that on top of the drivers that were missing at the end of 2021, more than 166,000 truck drivers from Ukraine, Belarus and Russia that were working in Europe, could have left their jobs due to the conflict, making the driver shortage problem in Europe even worse.

Some Polish freight transport operators have reported that up to 80% of their drivers were coming from those countries, numbers they are desperate to replace. The effects of heightened driver shortages already appear evident in Polish rate data. Rates on lanes leaving Warsaw reached an all-time high in Q1 2022, rising 2.8% over the previous three months.

Average price for international road freight on Polish export lanes



The effect is also likely to be felt widely across the region, with Polish carriers providing around 20% of the European market's capacity.

However, many mutually imposed sanctions and restrictions have significantly reduced the range of goods available for transportation in both directions. Limitations on transit and the potential threat of closing border crossing points (for example, the ban on entry of Russian and Belarussian operators to the EU currently discussed in EC, under the fifth package of sanctions) may lead to a historical decline in loaded trips, meaning the market needs fewer operators, vehicles and drivers. According to border crossing statistics from Poland, Romania, Hungary, Lithuania and Estonia, at the end of March, there was a 50% decrease in the number of trucks crossing the Europe–Russia and Europe–Ukraine border compared to the beginning of the conflict. As a result, the driver shortage in Europe might not increase.

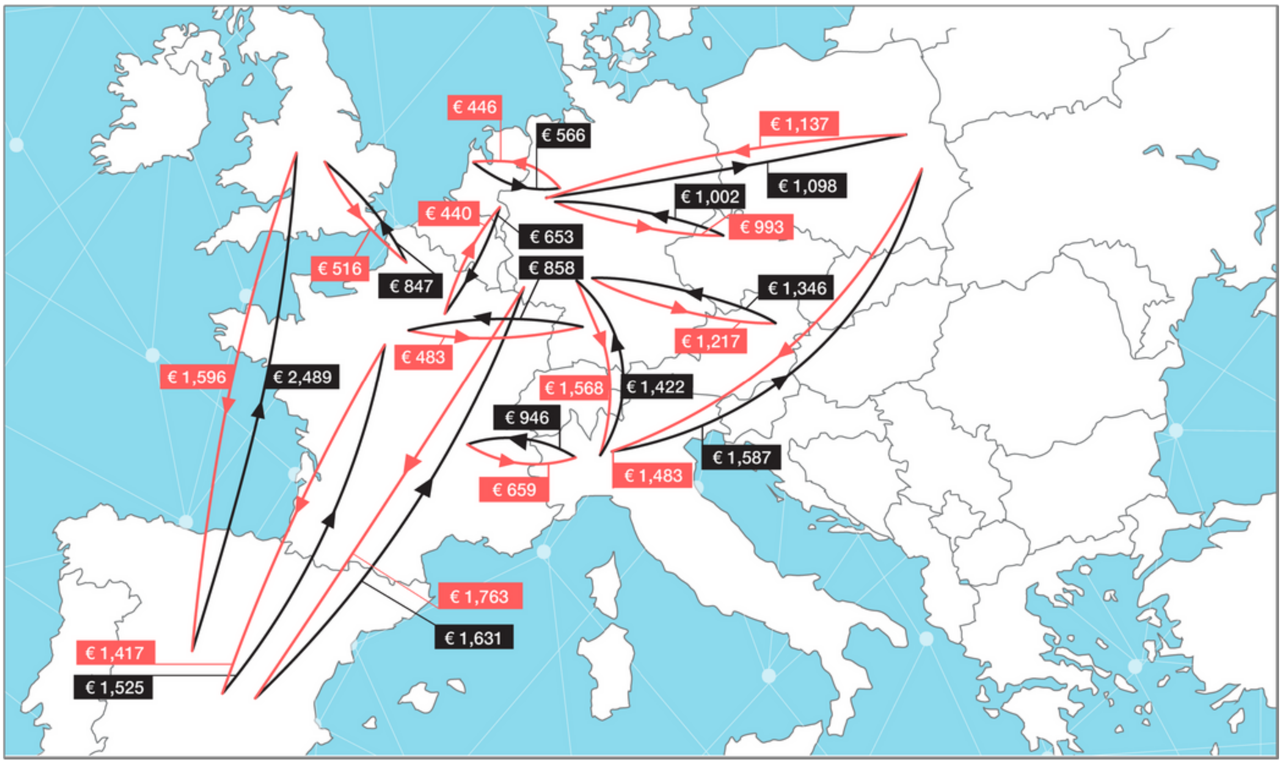
Nonetheless, if European companies have trucks (owned or leased under long-term contracts) they need to move to make a profit or at least cover costs, and so will need to be redirected to other routes or markets to avoid failure. Either they can find opportunities within the European internal market, and/or they are able to diversify their operations to other international markets (such as Turkey). In the first case, it could alleviate the current lack of transport capacity being witnessed in the past few months, caused by pent-up demand related to the pandemic. Over the long-term, once demand stabilises, the European market may have little space for newcomers. A number of companies may succeed, in which case they will need drivers to drive their trucks (thus increasing the driver need), while others may fail, and their drivers will be available to cover the pre-existing truck driver gap.

In addition to fuel price increases and driver shortages in the context of the war in Ukraine, another game-changer of this first quarter is the entry into force of the final dispositions of the Mobility Package. The Mobility Package 1 rules on driving and rest time rules became applicable in August 2020. The new rules on the posting of drivers came into force on 2 February 2022, and the new rules on the access to the profession and to the road freight market, on 21 February 2022.

Yet, impacts on costs and rates are still limited as many EU Member States are lagging behind their obligation to transpose and publish the information on the conditions applicable to posting in their countries, including critical information on drivers' remuneration in the host country. The same is true for specific aspects regarding access to the market and access to the profession. To date, the European Commission has started infringement procedures against 22 Member States, meaning that no more than 5 countries could be considered as fully in order.

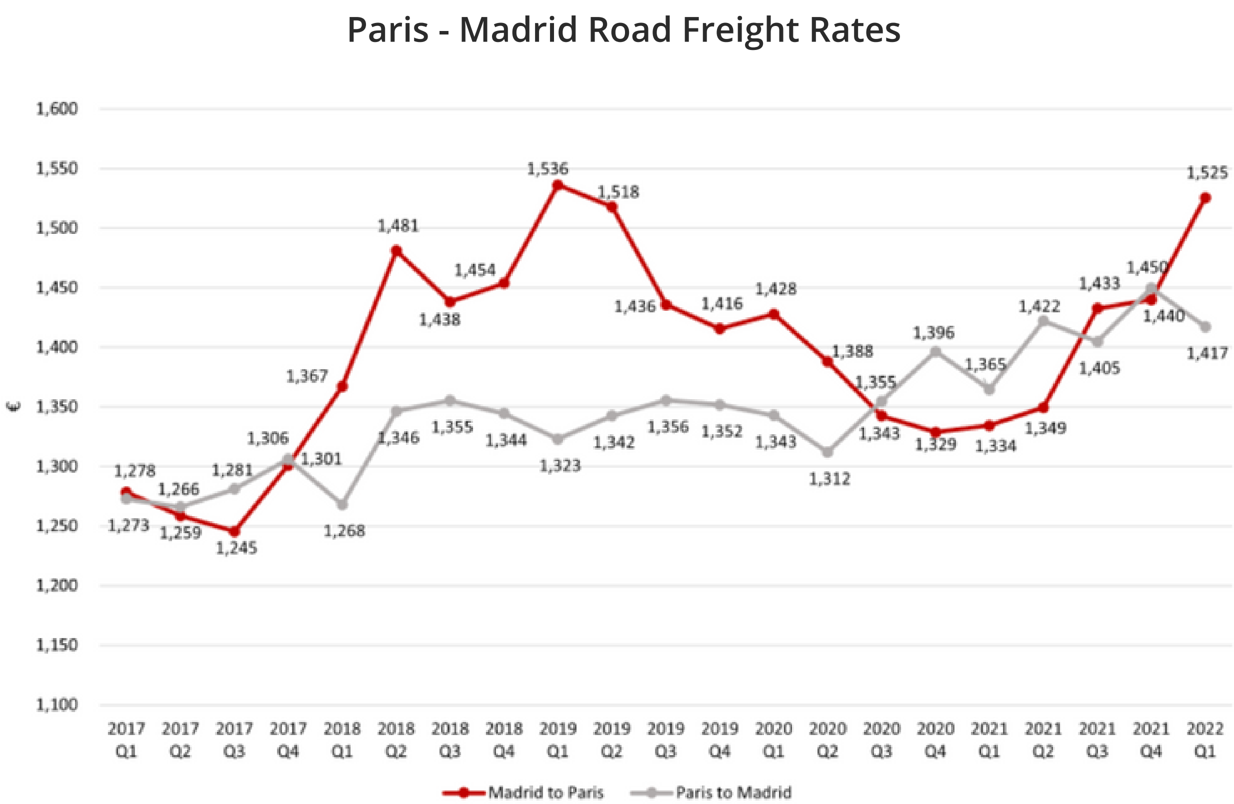
Different aspects of the Mobility Package could, however, create potential capacity constraints and therefore impact costs and rates. One of them is the mandatory return of the vehicle to the Member State of establishment within an 8-week period. These changes could hinder ongoing efforts to reduce the number of trucks on the road, increase fuel consumption and CO_2 emissions, and reduce efficiency through additional empty returns. Other measures are also closely monitored by the transport industry, including the 4-day cooling-off period introduced for cabotage operations.

Ti x Upply x IRU European Road Freight Benchmark Map – Q1 2022



Major Lanes

France - Spain

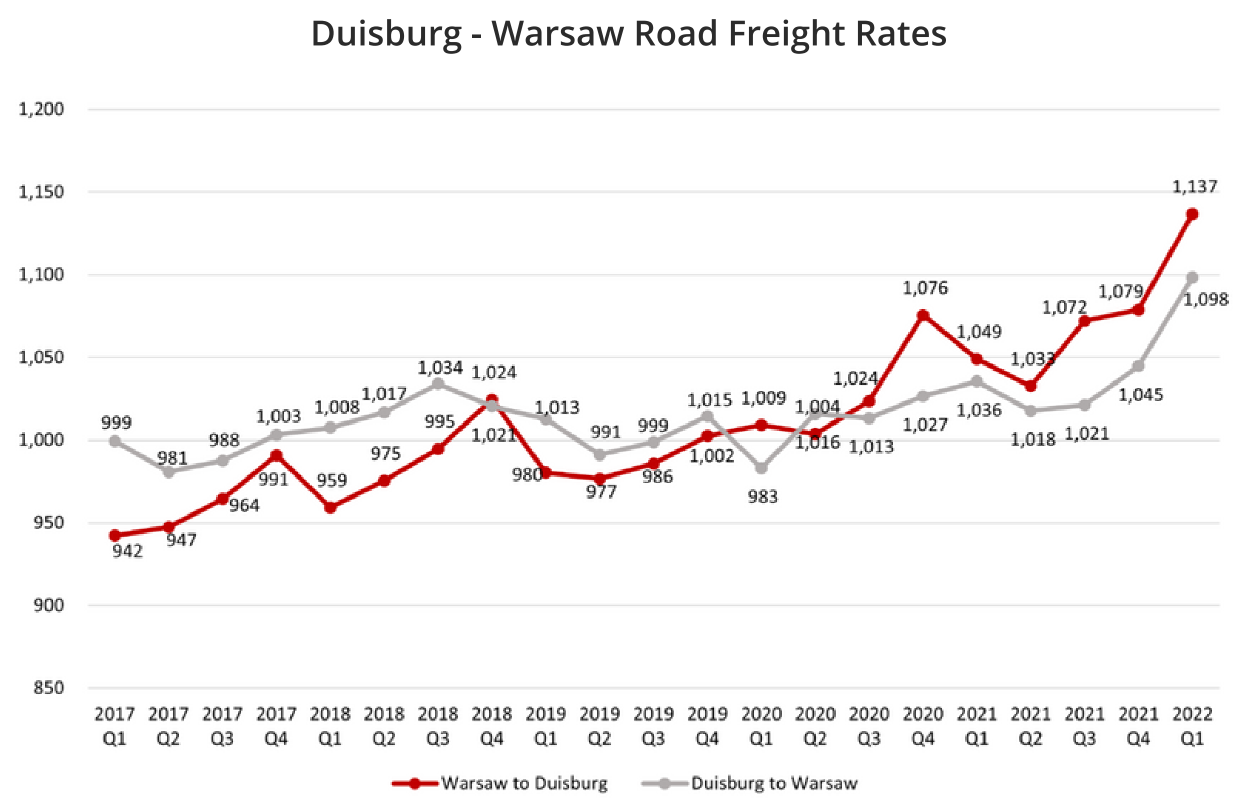


For a third consecutive quarter, rates between Madrid and Paris switch places as the most expensive, although in Q1 2022 both directions follow sharply different trajectories. Rates from Paris to Madrid fell by 2.2%, to €1.12/km. Year-on-year rates are 0.4% lower. In the opposite direction, rates into Paris continue to climb, having risen in each quarter since Q1 2021. At €1,525, rates were up 5.9% over the previous three months in Q1 2022, with an annual rise of 14.3% returning rates close to historic highs.

Strength in the French economy is powering the rate increases. The momentum continued into 2022 following a year when France saw 7% GDP growth, a 52-year high, while unemployment to 7.4%, its lowest level in a decade, helping to continue an expansion in consumer spending power. Both consumer and business spending have been encouraged by high levels of government spending, with the French state injecting around €100bn (equivalent to 4% of GDP) into the economy during 2021, helping to support spending on imports of Spanish produce, for example. Spain's exports to France, year-to-date to the end of February 2022, have increased by 31.6% to €102.2 million compared to the same period in 2021. At the same time, imports have increased by only 11.9% to €83.1 million.

Spanish demand for road freight, however, is declining as inflation constrains both consumer spending and industrial output. Data from Spain’s national statistics institute (INE) shows the country’s industrial price index rose 40.7 points in February alone while the consumer price index increased 3 points in March, quickening from a 0.8-point increase in February. With Spanish inflation ending Q1 2022 at 9.8% - along with a 5.7 point drop in its manufacturing PMI in March – upwards pressure on rates is weakening from the demand side. Localised strikes in Spain that took place during the quarter led to some capacity constraints and threaten to continue into Q2, which could see rate declines reverse.

Germany – Poland

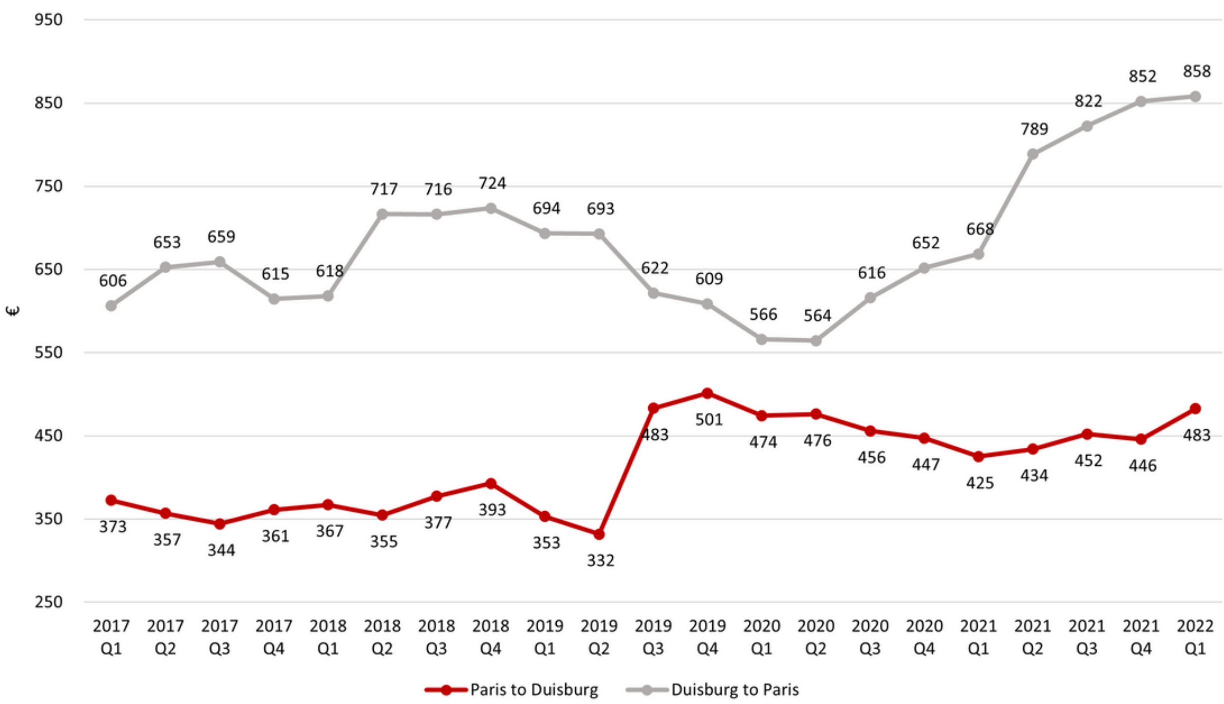


Rates on both the head- and backhaul of this route have hit all-time highs for the second consecutive quarter following a quarter of sharp increases. On the head haul leg from Warsaw to Duisburg, rates are up 5.1% quarter-on-quarter and 6.1% year-on-year, equating to €1.01/km. On the Backhaul to Warsaw, rates grew 5.4% over the previous three months and rose 8.4% above Q2 2021.

The Warsaw-Duisburg lane has been heavily affected by the war in Ukraine which has been a significant factor in a rate rise than has quickened significantly over Q4 2021. German manufacturing has also spurred increases, with the PMI in Europe's largest manufacturing economy above the Q4 average in January (59.8, up 2.4 points). A slowing pace of growth in the German manufacturing sector continued into March, however, and wider challenges saw the German Council of Economic Experts cut growth forecasts for 2022 from 4.6% to 1.8%.

Germany – France

Duisburg-Paris Road Freight Rates



Rising rates on the French import lane appear to be levelling out after a series of strong quarterly increases. The head haul rate increased by 0.7% quarter-on-quarter, a relatively subdued rise compared to recent rises, but still enough to result in a fourth consecutive quarter of new record rates. Year-on-year, rates in Q1 2022 are up 28.4%.

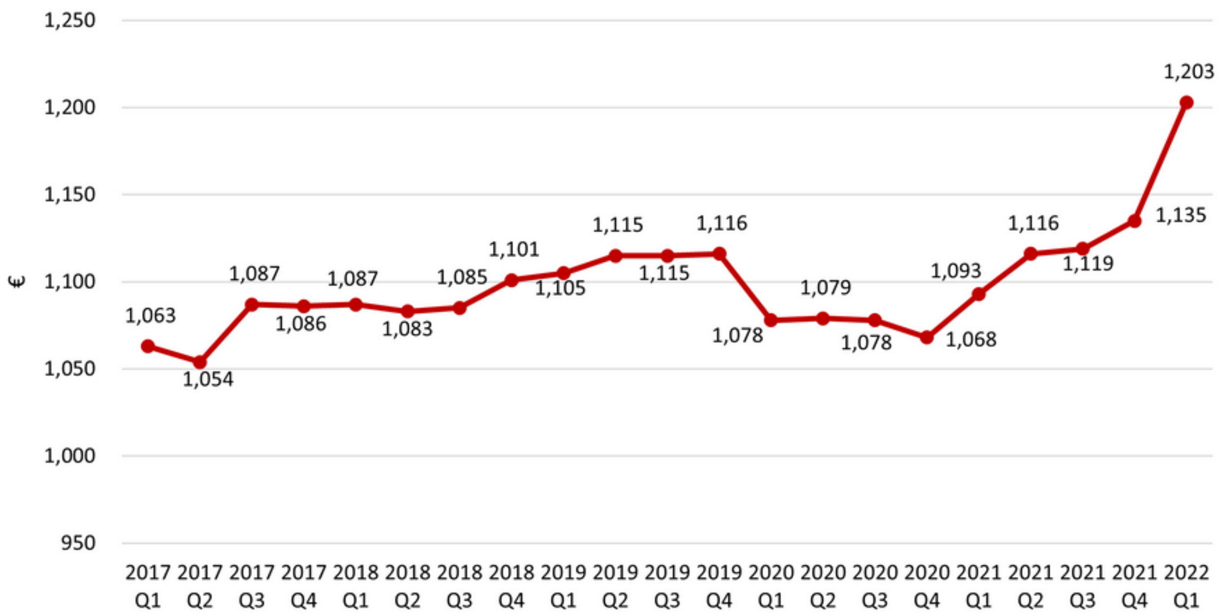
Since Q2 2020 rates between Paris and Duisburg have been broadly reflective of the economic trajectory seen in two of Europe's major economies. While France's post-pandemic economic recovery has provided strong demand for German finished goods and pushed rates higher, Germany's economy has struggled for similar momentum. While still expanding, the German manufacturing sector saw growth slow in each consecutive month during Q1 2022, and an overall rise in industrial production of 0.2% in February relied on a 4.9% increase in energy sector output. Indeed, the production of capital goods fell by 2% and construction output was 0.7% lower. German industrial production overall is still 3.8% below pre-pandemic levels and on a downward trend in response to rising prices. There are some positives to be found, however. Prices for German goods are rising, with consumer goods up 7.1% and capital goods up 5.5% in the same month. Sustained demand from a more robust economic outlook in France is keeping demand for German goods elevated for the time being, and helping to push up rates amid rising costs and capacity constraints.

Rate development in the Italian market

Routes originating in Milan

Export lanes from Italy saw rates rise faster than any other country during Q1 2022. Rates on international routes originating in Milan were 7.1% more expensive at the end of Q1 2022 than at the start of the three months, a rise more than double the European average.

Average price for international road freight lanes – Italian export lanes

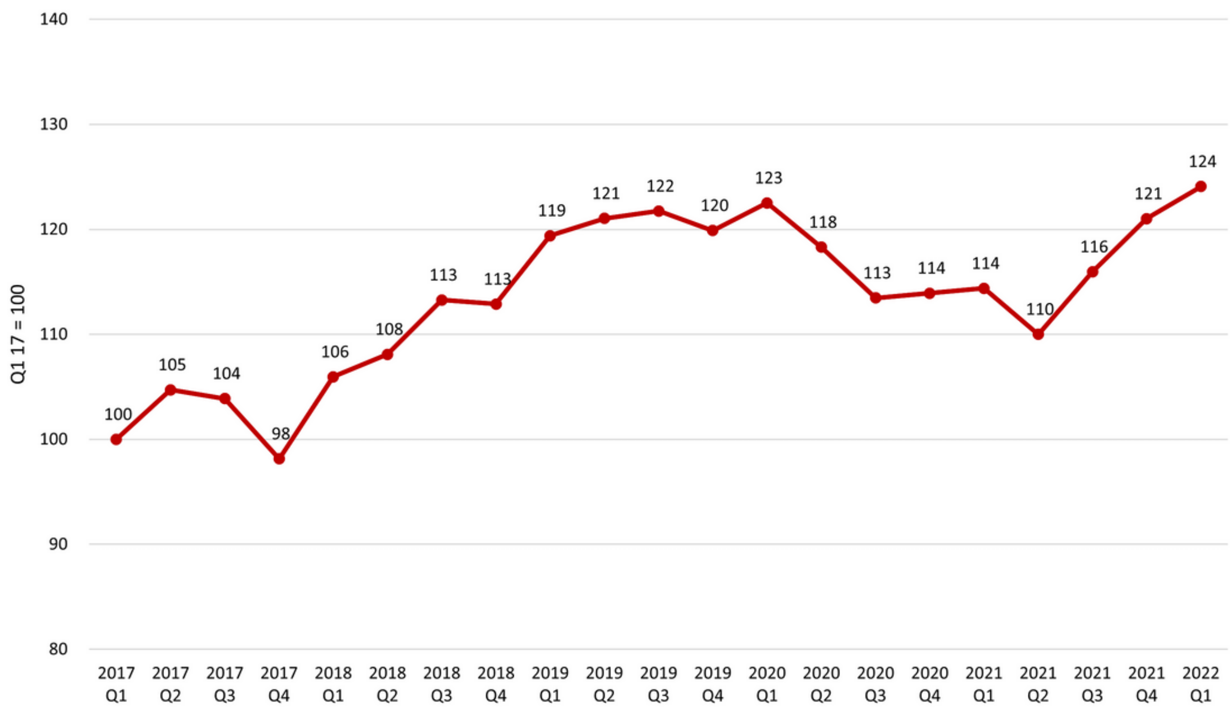


Italian rates have been pushed up by surging supplier costs, including rising fuel prices (+11% in Q1 2022 alone) and nationwide industrial action in the haulage market that has limited supply. In addition, at the end of March, Italian inflation had reached 7%, the highest recorded in the country since 1991.

Industrial action in the country's road freight market came as the Italian transport union, Transportunito, declared force majeure measures to deal with an explosion in operational costs that had risen to levels it deemed unsustainable and that threatened significant damage to smaller firms and owner-operators. Initial threats of suspended services caused anxiety in the Italian road freight markets which encouraged shippers to push more demand through before any possible action. This initially caused rates to rise steeply and was followed by further rises once service suspensions started in mid-March. The action aimed to encourage the Italian government to reduce VAT on fuel and support the country's transport sector. In response, the Italian government announced a package to cut duties on fuel that would reduce costs by 22% (or 30.5 cents) per litre at the pump compared to March 2022 prices. The package, however, initially only runs until the end of April. The result is Italian domestic rates that have increased for a third consecutive quarter, up 3.1 points quarter-on-quarter to an all-time high.

Rate development in the Italian domestic market

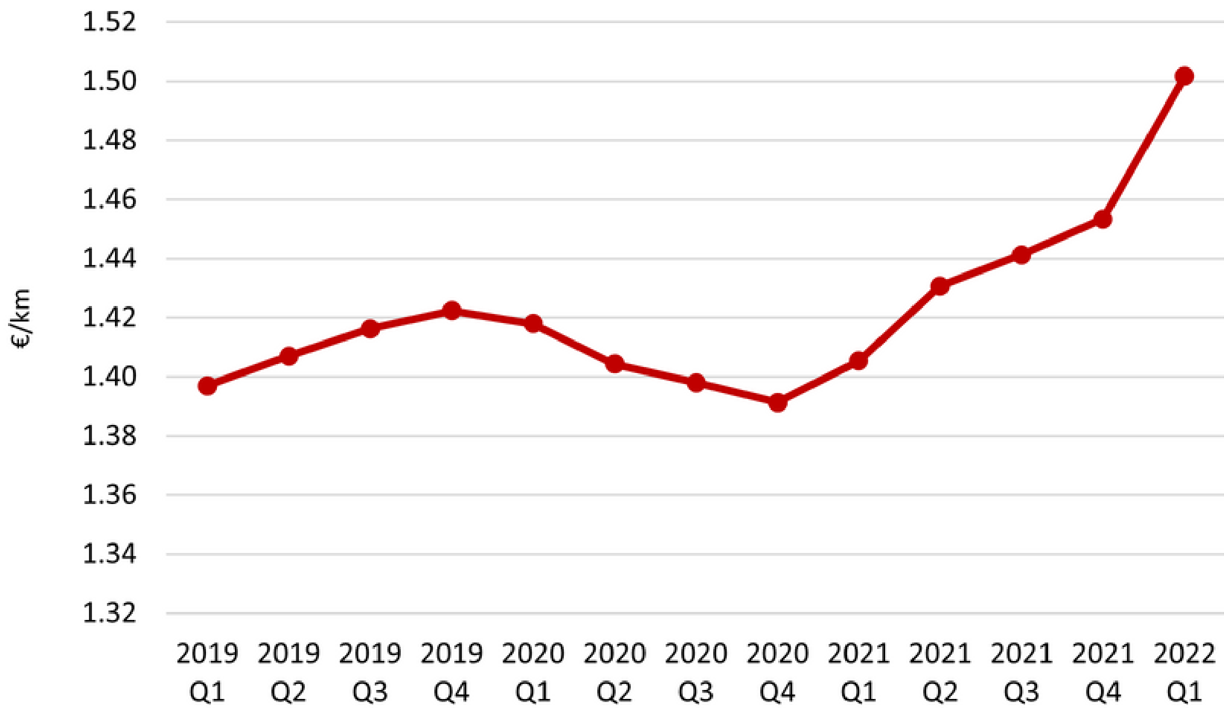
Upply Freight Index – Italy Domestic Road Freight Rates (100 = Q1 2017)



More widely, it appears falling demand has added to the challenges for Italian carriers with consumption and manufacturing weakening throughout Q1. High inflation has pushed consumer confidence in Italy down each month during Q1 2022, with the pace of falling confidence quickening. There was a similar erosion of manufacturing growth with PMI readings down 4.5 points to 57.4 in March compared to the Q4 2021 average reading.

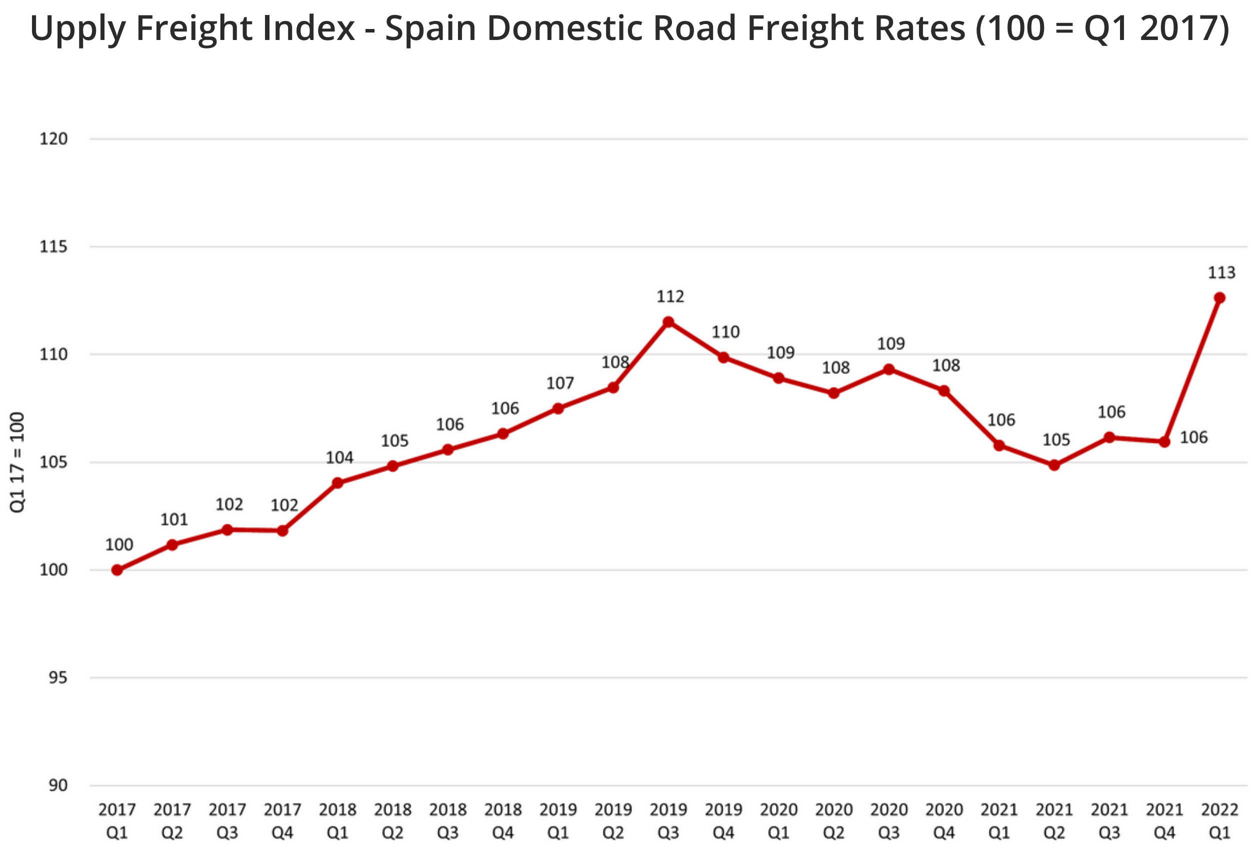
Rate development in the French domestic market

Upply Freight Index – France Domestic Road Freight Rates



Rates in the French domestic market are relatively stable when compared to the domestic markets of Spain and Italy. Despite the relative calm, however, rates are up 3.4% to €1.50/km, the quickest rate rise in a single quarter since measurement began in Q1 2019. With inflation in France sitting at 4.5% – lower than the euro area figure of 7.5% – rising fuel prices (diesel price increased by 31% in Q1 2022) are pushing domestic rates up in the French market. Domestic demand also remains healthy with retail sales expanding by 1.4% in both February and March, and total retail across the quarter up 0.4% compared to the final three months of 2021. Sales of manufactured goods were particularly strong.

Rate development in the Spanish domestic market

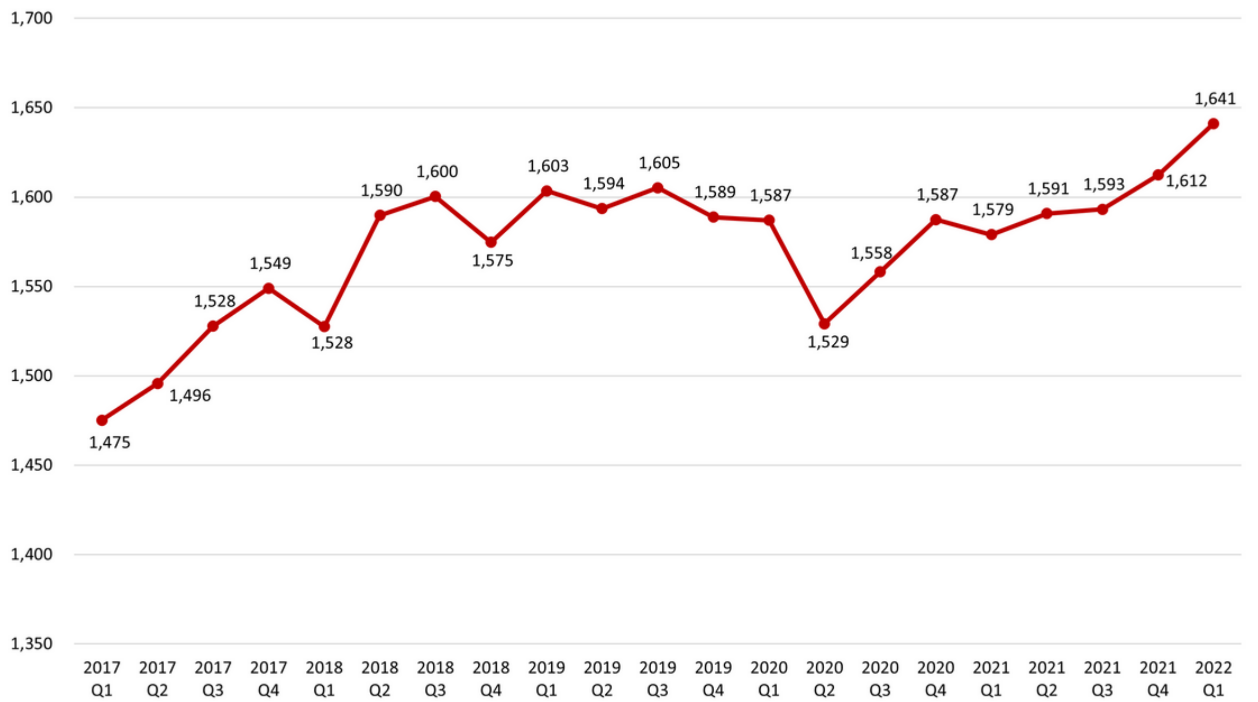


Spanish domestic rates increased dramatically in Q1 2022, reflecting disruption caused by localised action to protest rising costs (diesel price increased by 37% in Q1 2022 only, and 63% since January 2021). Rates have shot up to an all-time high following a 6.2% increase between Q4 2021 and Q1 2022.

Spanish industry faces the largest price increases since records began with industrial prices up 40% in February alone, stunting manufacturing output. At the same time, consumers are facing inflation of 9.8%. Rising prices are pushing up hauliers' costs and subsequently rates. Industrial action in the market has prompted the Spanish government to respond with a €500m support package. The measures announced by the Spanish Ministry of Transport include direct aid of 20 cents per litre of fuel. In addition, aid is also granted to road transport companies according to their vehicle fleet: €1,250 for a truck, €500 for a van.

Lane to Watch

UK import rates



The combined UK import lanes that contribute to the Upply x Ti X IRU European Road Freight Rates Benchmark reached a new highest-ever average total in Q1 2022. The five-lane average rose 1.8% over Q4 2021 and at €1,641 came in 3.9% higher than the average rate for the period a year earlier. From Q2 2020, a period in which the early spread of Covid-19 across Europe rapidly undermined demand drivers, prices have risen steadily, and are now close to 10% higher.

As well as cost drivers, such as fast-rising diesel and labour costs, analysed above, several longer-term factors are behind the increases. One is regulation. While the implementation of border checks on goods like food and produce has been delayed many times on the way into the UK, British exporters have been obliged to fully comply with EU regulations since January 2020. The extra documentation and checks have added to the time and cost of crossing the border into the EU. New documentation in January 2022 led to tail-backs at border crossings in Kent, but perhaps more significantly the effect of regulatory compliance post-Brexit as a whole has dented trade volumes between the UK and its nearest neighbour. The UK's Office for Budget responsibility reasserted its estimates at the end of Q1 2022 that "leaving the EU will result in the UK's total imports and exports being 15% lower than had the UK remained a member state". UK imports were already an unbalanced trade, with carriers pricing in the cost of an empty or underutilised route back to the continent. It appears that further declines and added costs in UK exports are exaggerating this relationship, putting upward pressure on rates.

Cross-channel transportation capacity has also helped push rates higher on UK import lanes. At various points throughout the quarter, cross-channel capacity has been lost, most notably with the suspension of services at P&O Ferries. The ferry operator made 800 staff redundant in March 2022, causing significant and ongoing disruption to cross-channel services. This has been compounded at various times by problems with DFDS Ferry services and mechanical issues in the Eurotunnel. This has led to long delays, especially at the end of the quarter when only around two-thirds of overall capacity was available, according to Kent's local authorities. At the time, Logistics UK reported carriers building in provision for 15-hour delays on both sides of the border crossing – undoubtedly also resulting in raised rates to compensate for the loss of productivity.

Looking ahead to Q2 and beyond, the outlook for rate development is mixed but indications point to further upwards pressure. In the immediate term, ferry capacity remains limited and backlogs over the Easter weekend led to anecdotal evidence quoted by the BBC of “1,000 lorries queuing for ferries and Eurotunnel trains, with nearly 500 more heading coastbound to join the line”. Such congestion has led Kent County Council to announce that Operation Brock – the set of measures it can take to keep freight and passenger traffic moving in the region around Dover Port – will be in place until at least early May. One positive is data showing this may be working, with data from visibility provider Sixfold showing end-to-end ferry crossing had reduced to three hours, depending on exact routes, following the Easter weekend logjam.

Further into the year, the UK’s planned implementation of import controls in July is expected to be delayed again, having already been pushed back by the UK government three times. While a further delay is likely to avoid an immediate gridlock, Logistics UK warns that the lack of definitive planning timelines is creating both uncertainty and leading some to delay preparations – it says without adequate preparation and guidance, “the system could potentially grind to halt" leading to queues as long as 29 miles at UK ports. In sum, the mix of congestion, uncertainty and the added time and cost of cross-channel haulage that drove rates up in Q1 remains a very real possibility in Q2 and perhaps longer.

European road freight rates outlook

European road freight rates have risen to record highs once again this quarter, with prices having risen continuously since Q1 2021 and price growth accelerating further in Q1 2022.

The data set out in this paper shows that rates are increasing across Europe in both the international and domestic markets.

Price increases have been driven by rising inflation, which is at high levels right across Europe, and especially by the sharp increase that has recently been seen in diesel prices, driven by the global oil market and exacerbated by the war in Ukraine. The worst effects of this fuel price increase may be yet to be registered in the quarterly index, as the price spike did not occur until after the invasion of Ukraine on the 24th of February, and carriers were able to make use of fuel purchased in advance at lower prices through the end of February and early March. With lower cost fuel now depleted, and fuel prices expected to remain elevated, greater upward pressure from fuel prices is expected on rates in Q2 2022.

The outlook for 2022 is for inflation to persist in most economies and fuel price to remain high, so it is highly likely that freight rates will remain elevated and may even continue to rise over the coming quarters across Europe, at least until the end of 2022.

However, as the wider effects of higher inflation begin to reduce consumer demand, and central banks are likely to increase interest rates to contain inflation, we should expect to see a substantial decrease in aggregate demand over the course of 2022. That is likely to translate to a reduction in road freight volume growth over the course of the year, which may help to ease the upwards pressure on rates as available capacity competes for fewer loads.

Methodology

The rates are the result of Upply's own econometric and statistical modelling, which is based on the analysis of more than 5000 million prices. Upply provides Truck Load (LTL & FTL) weekly rates estimations based on observed transactions for each major European trade lanes, associated with a confidence index. These rates are computed from Upply's key partners and users data. To complete the analysis presented here, Ti selected a representative sample of the largest European road freight corridors by volume. Ti then used the median rates provided by Upply on each corridor, averaging weekly rates over each quarter. Ti's team of senior analysts provide additional insight into the drivers and trends behind price movements with support from Upply. Note that data is subject to re-statements and that new lane samples can be chosen from one quarter to the next.

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Start-up launched in 2018, Upply combines business expertise and data science to bring transport and supply chain professionals a digital solution to benchmark, monitor and anticipate freight transport prices, including past data and forecasts. Upply also publishes market insights and deciphers the sector's challenges in a neutral manner.
Through its Marketplace, Upply directly connects road carriers, freight forwarders and trusted shippers across France and simplifies transport operations. To implement these unique solutions, Upply employs data scientists, logistics and IT professionals, and digital experts. The company is based in Levallois-Perret, near Paris.

For further information, please contact Upply's Customer Care at +33 (9)77 40 20 19 or email service.client@upply.com. Press contact: Gwendydd Beaumont, Communication Manager or email gwendydd.beaumont@upply.com.
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